

Message Text

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PAGE 01 KINGST 02565 142008Z
ACTION ARA-14

INFO OCT-01 ISO-00 AID-05 CIAE-00 EB-08 FRB-01 INR-10
NSAE-00 USIA-15 TRSE-00 XMB-04 OPIC-06 SP-02
LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-07 CEA-01
L-03 H-02 PA-02 AGRE-00 /107 W
-----106660 150539Z /62

R 141803Z MAR 78
FM AMEMBASSY KINGSTON
TO SECSTATE WASHDC 0210
INFO USDOC WASHDC

UNCLAS KINGSTON 2565

E.O. 11652: N/A
TAGS: ECON, ETRD, JM
SUBJECT: BANK OF JAMAICA EXPRESSES CONCERN THAT FALLING
U.S. DOLLAR COULD AFFECT JAMAICA

1. ACCORDING TO A VIEW EXPRESSED IN A PAPER PREPARED
BY THE BANK OF JAMAICA (BOJ) AND REPORTED IN THE JAMAICA
DAILY NEWS OF MARCH 13, "THE JAMAICAN DOLLAR COULD BE IN
FOR ANOTHER DEVALUATION IF THE UNITED STATES DOLLAR
CONTINUES TO DECLINE AGAINST OTHER WORLD CURRENCIES."

2. THE SIX-PAGE REPORT OF THE BOJ NOTES THAT THE
JAMAICAN DOLLAR IS TIED TO THE U.S. DOLLAR AND SAYS
"WHEN ALL THE FACTORS ARE TAKEN INTO ACCOUNT, JAMAICA
WILL BE ADVERSELY AFFECTED BY THE 'SHRINKING' U.S.
DOLLAR. THE MAGNITUDE OF NET LOSS WILL DEPEND ON THE
DURATION AND THE STEEPNESS OF THE DEPRECIATION OF THE U.S.
DOLLAR." IT NOTED THAT "AT PRESENT THE EXTENT OF THE
DEPRECIATION OF THE JAMAICAN DOLLAR DUE TO THE FALLING
U.S. DOLLAR IS NOT OF SUCH MAGNITUDE THAT WOULD RESULT IN
OUR SUSTAINING A NET LOSS. BUT IT WARNED THAT CONTINUOUS
DECLINE OF THE U.S. DOLLAR SHOULD GEAR THE GOJ AND MONETARY
AUTHORITIES TO PREPARE TO TAKE STEPS TO CUSHION THE ECONOMY
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PAGE 02 KINGST 02565 142008Z

FROM ANY SHOCKS RESULTING FROM A JOLT OF THE JAMAICAN DOLLAR."

3. ACCORDING TO THE BOJ REPORT, THE DECLINE IN THE U.S.
DOLLAR WAS DUE TO "THAT COUNTRY'S HUGE TRADE DEFICIT,
THE COAL MINERS' STRIKE AND A LACK OF CONFIDENCE. IF THE
DECLINE OF THE U.S. DOLLAR IS CONTINUOUS AND IRRETRIEVABLE
(AND IT JUST MIGHT BE WHEN VIEWED IN THE CONTEXT OF THE

CARTER ADMINISTRATION DISINCLINATION TO ARREST THE DECLINE), THERE WILL BE A DE FACTO DEVALUATION OF THE JAMAICAN DOLLAR." SUCH A SITUATION, THE BOJ REPORT STATES "WOULD FORCE THE ISLAND TO MAKE UNINTENDED AND UNPLANNED ADJUSTMENTS. AN EFFECTIVE DEVALUATION WOULD MEAN THAT "IF A JAMAICAN IMPORTER PURCHASES COMMODITIES FROM GERMANY OR ENGLAND AND THE PRICE OF THE GOODS ARE EXPRESSED SAY IN DEUTSCHMARKS OR POUNDS, MORE JAMAICAN DOLLARS WILL HAVE TO BE USED TO PURCHASE THESE CURRENCIES WHETHER THE FOREIGN EXPORTER IS PREPARED TO ACCEPT PAYMENT IN U.S. DOLLARS, POUNDS OR DEUTSCHMARKS."

4. ACCORDING TO THE BOJ REPORT "THE EXPORT SIDE OF OUR INTERNATIONAL TRADE ... SHOULD COME IN FOR A WINDFALL. THE EXPORTS THAT ARE EXPECTED TO BE AFFECTED ARE THE STERLING AREA EXPORTS ... SUGAR, BANANAS, RUM AND CITRUS." THE PAPER NOTED THAT THE TRADE BALANCE WITH THE

STERLING AREAS AND OTHER CURRENCY AREAS SHOWED A SURPLUS OF \$6,587,000 AND IN 1976 A DEFICIT OF \$55,022.

5. "THE CONCLUSION WITH RESPECT TO TRADE IS THAT IF EXPORT PRODUCTION DOES NOT INCREASE AND IF THE LEVEL OF IMPORTS FROM THE STERLING AND OTHER CURRENCY AREAS IS NOT REDUCED, THIS DEFICIT POSITION WILL PERSIST."

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PAGE 03 KINGST 02565 142008Z

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: DEVALUATIONS, FOREIGN TRADE
Control Number: n/a
Copy: SINGLE
Draft Date: 14 mar 1978
Decaption Date: 01 jan 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 jan 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978KINGST02565
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D780114-0766
Format: TEL
From: KINGSTON
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t19780372/aaaaciur.tel
Line Count: 94
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: a6edf5c7-c288-dd11-92da-001cc4696bcc
Office: ACTION ARA
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 2
Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 15 mar 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 3343127
Secure: OPEN
Status: NATIVE
Subject: BANK OF JAMAICA EXPRESSES CONCERN THAT FALLING U.S. DOLLAR COULD AFFECT JAMAICA
TAGS: ECON, ETRD, EFIN, JM, US
To: STATE
Type: TE
vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/a6edf5c7-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014